

# Auditing Procedures Report V1.04

[Reset Form](#)[Email](#)

Issued under Public Act 2 of 1968, as amended .

Unit Name	Burton Endowment Fund of the Detroit Public	County	WAYNE	Type	OTHER	MuniCode	
Opinion Date-Use Calendar	Jul 11, 2008	Audit Submitted-Use Calendar	Aug 13, 2008	Fiscal Year-Use Drop List	2006		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

**Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".**

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text"/>
General Fund Expenditure:	<input type="text"/>
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	<input type="text"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Aaron	Last Name	Stevens	Ten Digit License Number	1101024055				
CPA Street Address	3511 Coolidge Road, Suite 10	City	East Lansing	State	MI	Zip Code	48823	Telephone	+1 (517) 351-6836
CPA Firm Name	Abraham & Gaffney, P.C.	Unit's Street Address	5201 Woodward Avenue	City	Detroit	LU Zip	48202		

**Detroit Public Library  
Burton Endowment Fund**

**FINANCIAL STATEMENTS**

**June 30, 2006**

Detroit Public Library  
Burton Endowment Fund

TABLE OF CONTENTS

June 30, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-iii
FUND FINANCIAL STATEMENTS	
Balance Sheet	1
Statements of Revenues, Expenditures and Changes in Fund Balance	2
Notes to Financial Statements	3-7

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Members of the Detroit Library Commission  
Detroit Public Library  
Detroit, Michigan

We have audited the accompanying financial statements of the Burton Endowment Fund of the Detroit Public Library, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Detroit Public Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Burton Endowment Fund and do not purport to, and do not, present fairly the financial position of the Detroit Public Library, as of June 30, 2006, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Burton Endowment Fund of the Detroit Public Library, as of June 30, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 11, 2008

Detroit Public Library  
Burton Endowment Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

As management of the Detroit Public Library, we offer this discussion and analysis of the activities of the Burton Endowment Fund (the Fund) for the year ended June 30, 2006.

The discussion and analysis of financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Fund's financial statements which will immediately follow this section.

**Using this Financial Report**

This annual report consists of the fund financial statements for the Burton Endowment Fund of the Detroit Public Library. The fund financial statements present a short-term view; they tell us how the Fund's resources were spent during the year, as well as how much is available for future spending.

**Financial Highlights**

The following represent the most significant financial highlights for the year ending June 30, 2006:

- The assets of the Fund exceeded its liabilities at the end of the fiscal year by \$2,515,512 (fund balance).
- The Fund's fund balance increased by \$40,469 as the result of current year.
- Beginning fund balance was decreased by \$150,184 by a prior period adjustment.

**Condensed Financial Information**

The following table presents condensed information about the Fund's financial position compared to the prior year:

	<u>2006</u>	<u>Restated 2005</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 395,521	\$ 256,783
Investments	<u>2,536,447</u>	<u>2,524,191</u>
Total assets	2,931,968	2,780,974
<b>Liabilities</b>		
Current liabilities	416,456	305,931
<b>Fund Balance</b>		
Reserved	150,000	150,000
Unreserved	<u>2,365,512</u>	<u>2,325,043</u>
Total fund balance	<u>\$ 2,515,512</u>	<u>\$ 2,475,043</u>

Detroit Public Library  
Burton Endowment Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The following table shows the changes in fund balance in a comparative format for the years ending June 30, 2006 and September 30, 2005, respectively.

	<u>2006</u>	<u>Restated 2005</u>
<b>Revenues</b>		
Investment earnings	\$ 110,627	\$ 111,609
Other	<u>8,154</u>	<u>8,246</u>
Total revenues	118,781	119,855
<b>Expenditures</b>		
Library reference materials	52,309	78,033
Bank and professional fees	25,963	24,739
Other	<u>40</u>	<u>-</u>
Total expenditures	<u>78,312</u>	<u>102,772</u>
<b>Change in fund balance</b>	<b><u>\$ 40,469</u></b>	<b><u>\$ 17,083</u></b>

**Economic Factors**

The Fund's ability to enhance the Burton Historical Collection is dependent on the performance of the endowment's investments. Changes in economic conditions have significant impact on activities of the Fund.

**Contacting the Library's Management**

This financial report is intended to provide the financial statement reader with a general overview of the Fund's finances and demonstrate the Detroit Public Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library's Financial Department at 5201 Woodward Avenue, Detroit, Michigan 48202.

## **FUND FINANCIAL STATEMENTS**

Detroit Public Library  
Burton Endowment Fund

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

ASSETS

Cash and cash equivalents	\$ 395,521
Investments	<u>2,536,447</u>

TOTAL ASSETS	<u><u>\$ 2,931,968</u></u>
--------------	----------------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to other funds	\$ 416,456
--------------------	------------

FUND BALANCE

Reserved for Burton Historical Collection	150,000
---	---------

Unreserved

Designated for the Burton Historical Collection	<u>2,365,512</u>
---	------------------

TOTAL FUND BALANCE	<u>2,515,512</u>
--------------------	------------------

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,931,968</u></u>
------------------------------------	----------------------------

See accompanying notes to financial statements.



Detroit Public Library  
Burton Endowment Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

Year Ended June 30, 2006

REVENUES	
Charges for services	\$ 3,785
Investment income	110,627
Other	<u>4,369</u>
TOTAL REVENUES	118,781
EXPENDITURES	
Current	
Recreation and cultural	
Library reference materials	52,309
Bank and professional fees	25,963
Other	<u>40</u>
TOTAL EXPENDITURES	<u>78,312</u>
NET CHANGE IN FUND BALANCE	40,469
Fund balance, beginning of year	2,625,227
Prior period adjustment	<u>(150,184)</u>
Fund balance, end of year	<u><u>\$ 2,515,512</u></u>

See accompanying notes to financial statements.

Detroit Public Library  
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF THE FUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Burton Endowment Fund (the Fund), as modified, is an irrevocable trust in perpetuity created by the late Clarence M. Burton on October 17, 1921. The income of the trust is to be used for the purchase of books, papers, pamphlets and other forms of historical data, which are suitable for the Burton Historical Collection located in the Detroit Public Library. The Fund is administered by the Detroit Library Commission (the Commission).

The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund's more significant accounting policies are described below.

**1. Reporting Entity**

The Fund is considered a fund of the Detroit Public Library. As a result, industry standards require the Library to include the financial activities of the fund in the Library's annual financial report. The Detroit Public Library was not audited for the year ended June 30, 2006.

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Burton Endowment Fund, and do not purport to, and do not, present fairly the financial position of the Detroit Public Library as of June 30, 2006, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**2. Basis of Presentation**

The Fund is considered a separate accounting entity. The operation of the Fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Fund resources are accounted for based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Burton Endowment Fund is a governmental fund of the Detroit Public Library and is used to account for the financial resources endowed to the Library by Clarence M. Burton. The resources of the Fund are legally restricted by the terms of the endowment agreement. Therefore, the Fund is classified as a Permanent Fund.

**3. Measurement Focus**

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Detroit Public Library  
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE A: DESCRIPTION OF THE FUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**5. Deposits and Investments**

The Fund's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments consist of equities and fixed income securities with original maturities of more than three months from the date of acquisition and are reported at fair value, based on quoted market prices.

**NOTE B: DEPOSITS AND INVESTMENTS**

In accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976, in addition to an investment otherwise authorized by law or by the endowment agreement, the Detroit Library Commission, subject to specific limitations set forth in the endowment agreement, may:

1. Invest and reinvest the Fund in real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government, or subdivision, or instrumentality thereof.
2. Retain property contributed by a donor to the Fund for as long as the governing board deems advisable.
3. Include all or any part of the Fund in a pooled or common fund maintained by the institution.
4. Invest all or any part of the Fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

The Fund's cash, cash equivalents, and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Detroit Public Library, as administrator for the Fund, does not have a deposit policy for custodial credit risk. At year end, the Fund had \$277,233 of bank deposits (checking account) that were uninsured and uncollateralized. The Library believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Detroit Public Library  
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED**

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Detroit Public Library, as administrator for the Fund, does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Library's name:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Short-term investments	\$ 22,154	N/A
U.S. government obligations	151,117	7.85
U.S. federal agencies	403,962	3.35
Inflation index bonds	12,736	2.55
Mortgage backed securities	50,701	6.33
Collateralized mortgage obligations	30,706	8.11
Asset backed securities	57,262	4.24
Domestic and foreign corporate bonds	145,060	11.79
Domestic and foreign stocks	1,587,336	N/A
Uncategorized pooled investment funds	<u>97,567</u>	N/A
Total investments	<u>\$ 2,558,601</u>	

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Detroit Public Library, as administrator for the Fund, does not have a policy that restricts investment maturities.

Credit Risk

The Uniform Management of Institutional Funds Act does not limit investments of the Fund to certain credit ratings issued by nationally recognized statistical rating organizations. Similarly, the Detroit Public Library has no investment policy that limits its investment choices.

The Fund's investments were rated by Standard & Poor's as follows:

	<u>Fair Value</u>
AAA	\$ 633,282
AA+	21,011
AA	28,255
AA-	16,409
A+	30,739
A	38,114
A-	10,533
Not rated	<u>1,780,258</u>
	<u>\$ 2,558,601</u>

Detroit Public Library  
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED**

Concentration of Credit Risk

The Detroit Public Library places no limit on the amount the Fund may invest in any one issuer.

Foreign Currency Risk

The Detroit Public Library, as administrator for the Fund, does not have a policy for foreign currency risk. The Fund's exposure to foreign currency risk is as follows:

	<u>Fair Value</u>
Foreign stock	\$ 71,233
Foreign bonds, notes and debentures	<u>30,268</u>
	<u>\$ 101,501</u>

Investment Earnings Summary

Investment earnings resulted from the following:

Current year change in fair value	\$( 75,253 )
Interest, dividends, and realized gains	<u>185,880</u>
Total investment earnings	<u>\$ 110,627</u>

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details amounts due to other funds of the Detroit Public Library from the Burton Endowment Fund at June 30, 2006:

Due to General Fund	\$ 14,923
Due to Grants and Gifts Fund	<u>401,533</u>
Total due to other funds	<u>\$ 416,456</u>

Amounts appearing as interfund payables arose from the Burton Endowment Fund paying for a good or service that at least a portion of the benefit belonged to another fund.

**NOTE D: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Detroit Library Commission has set aside for specific purposes.

Through the Burton Endowment Fund agreement dated October 17, 1921, securities with a par value of \$50,000 were contributed to the Detroit Library Commission. Once the endowment principal reached a fair value of \$150,000, the investment earnings of the Fund were exclusively designated for the purchase of historical data for the Burton Historical Collection. For this reason, \$150,000 of the fund balance has been reserved and the remaining fund balance has been designated for the Burton Historical Collection.

Detroit Public Library  
Burton Endowment Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**NOTE E: PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made during the year, which was the result of the correction of an accounting error. This adjustment was reported as a change to beginning fund balance. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30, <u>2006</u>	<u>2005</u>	<u>Description</u>
Due to other funds	\$ -	\$ 150,184	To correct understated
Net change in fund balance	-	( 150,184 )	due from other funds
Fund balance - beginning	( 150,184 )	-	

#### Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



## **ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Detroit Library Commission  
Detroit Public Library  
Detroit, Michigan

We have audited the financial statements of the Burton Endowment Fund of the Detroit Public Library as of and for the year ended June 30, 2006, and have issued our report thereon dated July 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Detroit Public Library's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Detroit Public Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Detroit Public Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

#### PREPARATION OF FINANCIAL STATEMENTS

Statement on Auditing Standards No. 112 (SAS 112) titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with U.S. generally accepted accounting principles (GAAP).

Based on our discussions with management and audit fieldwork performed for the 2006 fiscal year, the Detroit Public Library personnel have the ability to perform monthly internal accounting functions and provide timely reports as requested by the Commission however, based on our review of the prior year audited financial statements, it appears that the Library personnel in place at the time the prior year audited financial statements were issued did not have qualifications and training necessary to generate financial statements and related note disclosures in accordance with GAAP as applicable to governmental units.

The audited financial statements of the Burton Endowment Fund for the year ended June 30, 2005, were not prepared in accordance with GAAP as applicable to governmental units. While we understand that Library personnel did not prepare the report on the prior year's financial statements, management is required to accept responsibility for the information contained within such a report. We are communicating these circumstances as required by professional standards. Although we do not see a need for any change in the process related to the preparation of the financial statements (i.e., relying on the auditors' expertise), we recommend management take appropriate steps to be able to accept responsibility for the Burton Endowment Fund's financial statements.

#### FRAUD RISK MANAGEMENT PROGRAM

During discussions with management, we noted that the Detroit Public Library has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the Library not developing a fraud risk assessment and monitoring program, it is unable to assess the Burton Endowment Fund's vulnerabilities to fraudulent activities and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the Library's management develop and the Detroit Library Commission formally implement a fraud risk management program that is appropriate for the size and complexity of the entity. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the entity, and instructions for reporting fraud within the chain of command.

#### SUPPORTING DOCUMENTATION

During our testing of the Fund's bank reconciliations, we noted that documentation (i.e., canceled checks) supporting the reconciled balance as of June 30, 2006, could not be located.

Although we were able to satisfy our audit evidence requirements utilizing alternative methods, we recommend that management review current procedures related to the retention of supporting documentation and make necessary modifications to ensure that supporting documentation exists for all reconciling items listed on the bank reconciliation.

#### GAP IN CHECK SEQUENCE

During our analysis of the Fund's expenditures, we noted that a gap exists in the accounts payable check sequence. The gap noted was approximately 350 checks.

We recommend that the Library's management review internal controls over unused check stock and the accounts payable disbursement process to assure that checks are processed in numerical sequence in the future.

#### UNRECORDED PREPAID EXPENDITURES

During our analysis of the Fund's expenditures, we noted that invoices for publication subscriptions extending beyond the end of the fiscal year were not allocated to the appropriate fiscal year.

We recommend that Library personnel analyze invoices for subscriptions that overlap fiscal years to calculate the amounts attributable to each of the respective fiscal years. Prepaid expenditures should be recorded for the portion of the subscription that will be received after the end of the current fiscal year.

#### TIMELINESS OF DEPOSITS

During our testing of the receipts process, we noted one (1) instance where a deposit for \$5,080 was prepared for the Fund on November 10, 2005, but not credited to the bank account until December 1, 2005.



We recommend bank deposits be made at least weekly and more often if the amounts received by the Library are considered substantial.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following significant deficiencies to be material weaknesses, as defined above.

#### MATERIAL JOURNAL ENTRIES

Material journal entries were proposed as part of our audit process. The following material misstatements were detected as a result of audit procedures and were subsequently corrected by management:

- Reclassification of expenditures that did not meet the criteria for expenditure from the Burton Endowment Fund
- Reclassification of current year contributions that were designated for the Burton Historical Collection, but not considered part of the Burton Endowment Fund
- Reclassification of prior year contributions that were designated for the Burton Historical Collection, but not considered part of the Burton Endowment Fund

Because we proposed material journal entries as part of the audit process, and because auditors cannot be part of the government's internal controls, a control deficiency exists for the Detroit Public Library relative to the Burton Endowment Fund financial statements. SAS 112 emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flow (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

Responsibility for the financial statements of the Burton Endowment Fund rests with the Library's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting fund financial statements, including related notes disclosures (i.e., external financial reporting). The auditor cannot be part of internal controls.

We recommend management take steps to ensure that material journal entries and corrections are recorded prior to the performance of audit fieldwork in the future.

#### SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk and through discussions with management, we noted that the Library did not have sufficient segregation of duties in its accounting structure related to the Burton Endowment Fund. Specifically, we noted that for the year ended June 30, 2006, the Business and Financial Operations Manager entered all receipts and journal entries in the general ledger. In addition, this individual also directly received the bank statement, and prepared the monthly bank reconciliation. Reasonable segregation of duties is essential to sound internal control and necessary to prevent and detect errors and fraud.

While this is a common occurrence in many organizations due to the limited number of employees, the Detroit Library Commission should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the Library's management must provide a greater review and supervision of employee functions and procedures. While greater review and supervision would serve as a mitigating control, it would not necessarily directly address the lack of segregation of duties described in this situation.

We recommend that management review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend management provide greater review and supervision of employee functions and procedures.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Burton Endowment Fund's financial statements are free of material misstatement, we performed tests of the Detroit Public Library's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following noncompliance and other matters required to be reported:

### VOIDING OF OLD OUTSTANDING CHECKS

During our review of the preliminary trial balance, we noted that checks that had been outstanding for several years were voided and the balance added back to the checking account balance. Michigan Public Act 29 of 1995 provides that unclaimed property (i.e., outstanding checks) be escheated to the State of Michigan in the year after they have been outstanding for more than one year. While the amounts of the outstanding checks were not considered material to the financial statements of the Burton Endowment Fund, the procedure of voiding the checks rather than escheating the unclaimed property is in violation of Michigan Compiled Law.

We recommend that in the future the Library attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we recommend the Library escheat funds to the State of Michigan as necessary.

### TIMELINESS OF FINANCIAL REPORTING

The audit fieldwork of the Burton Endowment Fund for the year ended June 30, 2006 did not take place until July of 2008. For financial reporting to be useful, it should be performed in a timely manner.

We recommend that the Detroit Library Commission assure that future audits of the Burton Endowment Fund are timelier. Michigan Public Act 2 of 1968 requires annual financial reports of local units of government to be filed with the Local Audit and Finance Division of the State Department of Treasury within six (6) months after the end of the fiscal year. As a fund of the Detroit Public Library, such a filing requirement applies to the Burton Endowment Fund.

### NONCOMPLIANCE WITH THE TERMS OF THE ENDOWMENT AGREEMENT

During our analysis of expenditures, we noted certain expenditures that did not appear to comply with the terms of the endowment agreement (i.e., purchases of publications that did not appear to enhance the collection of American and Canadian history and genealogy). As a result of our audit procedures, a journal entry was recorded to appropriately reflect those expenditures as expenditures of the General Fund.

We recommend that the Library's management review internal controls over the processing of accounts payable disbursements to assure that future expenditures are in compliance with the terms of the endowment agreement.

### COMINGLING OF CONTRIBUTIONS DESIGNATED FOR THE BURTON HISTORICAL COLLECTION

During our analysis of revenues, we noted that contributions designated for the Burton Historical Collection were recorded in the Burton Endowment Fund. Although the contributions received were designated for the same purpose as the endowment, they should not be comingled with the Burton Endowment Fund.

As a result of our audit procedures, journal entries were recorded to appropriately reflect the current and previous years' contributions designated for the Burton Historical Collection as revenue of the Detroit Public Library's Gift Fund.

We recommend the Library's management review internal controls over the recording of revenues to assure that any future contributions designated for the Burton Historical Collection, but not considered to be part of the Burton Endowment Fund, are recorded in the appropriate fund of the Detroit Public Library.

This report is intended solely for the information and use of management, the members of the Detroit Library Commission, and others within the Detroit Public Library and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

July 11, 2008